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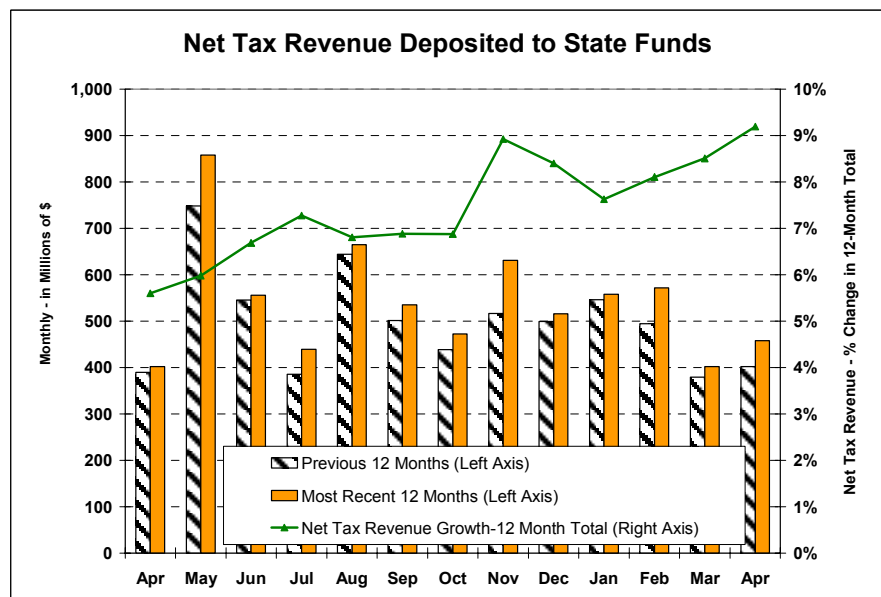
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: May 28, 2008

Twelve-month Total Net Tax Receipts Through April 30, 2008

The attached spreadsheet presents net State tax receipts for the 12-month period ending April 2008 with comparisons to the previous 12 months. April 2007 to April 2008 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those tax receipts.



Month of April Comparison

April net tax receipts totaled \$457.8 million, an increase of \$55.7 million (13.9%) compared to April 2007. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$32.8 million, 17.9%) – Gross receipts were up \$46.0 million while Income Tax refunds increased \$13.2 million for the month. Individual Income Tax return payments increased significantly in April due to a tax processing issue and the situation should reverse in May.
- Corporate Income Tax (negative \$0.1 million, - 0.2%) – Gross receipts increased \$36,000 and refunds increased \$117,000 million.

- Sales/Use Tax (positive \$9.9 million, 10.8%) – General Fund Gross Sales/Use Tax receipts increased \$5.5 million and Use Tax deposited to the Road Use Fund increased \$1.4 million. Refunds issued for the month decreased \$3.0 million.
- Fuel Tax (negative \$0.6 million, - 1.7%) – Gross Fuel Tax revenue decreased \$0.2 million while refunds processed in the month increased \$0.4 million.
- Cigarette & Tobacco Taxes (positive \$11.4 million, 104.6%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. Going forward the State should not see any significant additional increase in Cigarette and Tobacco Tax receipts associated with the 2007 tax increase.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending April 2008, net revenue from all taxes deposited to State funds totaled \$6.662 billion, an increase of \$561.0 million (9.2%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$299.6 million, 11.8%) – Growth has generally been strong in all three components of Individual Income Tax receipts; withholding, estimate payments, and payments with returns. Growth has been offset somewhat by increased refunds.
- Corporate Tax (positive \$13.6 million, 4.0%) – Corporate Tax has shown strong growth since 2003. Although the rate of growth remains solidly positive, it has tapered off over the past 12 months.
- Sales/Use Tax (positive \$124.6 million, 5.9%) – The rate of Sales/Use Tax growth has been volatile over the past 16 months. Local Option Sales Tax deposit and withdrawal timing issues have caused the year-over-year growth rate to fluctuate between 0.1% and 5.9% over that time period.
- Fuel Tax (positive \$4.1 million, 0.9%) – Despite significant increases in the price of gasoline and diesel fuel, net Motor Fuel Tax revenue growth has remained positive.
- Gambling Tax (positive \$5.5 million, 1.9%) – Gambling Tax revenue growth has slowed significantly during the last six months.
- Cigarette and Tobacco Tax (positive \$143.7 million, 133.7%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007. Year-over-year growth associated with the rate increase ended in April 2008.
- Insurance Premium Tax (negative \$20.8 million, – 16.8%) – The Insurance Premium Tax rate was reduced over multiple years. Calendar year 2007 was the first year all premiums were taxed at the final 1.0% rate. The use of economic development tax credits by insurance companies may also be impacting this revenue source.

Tax Spotlight – Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of Chapter 453A, Code of Iowa. Based on law changes during the 2007 legislative session:

- Cigarettes (and little cigars) are taxed at \$.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price per cigar, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.

The current tax rates went into effect on March 16, 2007.

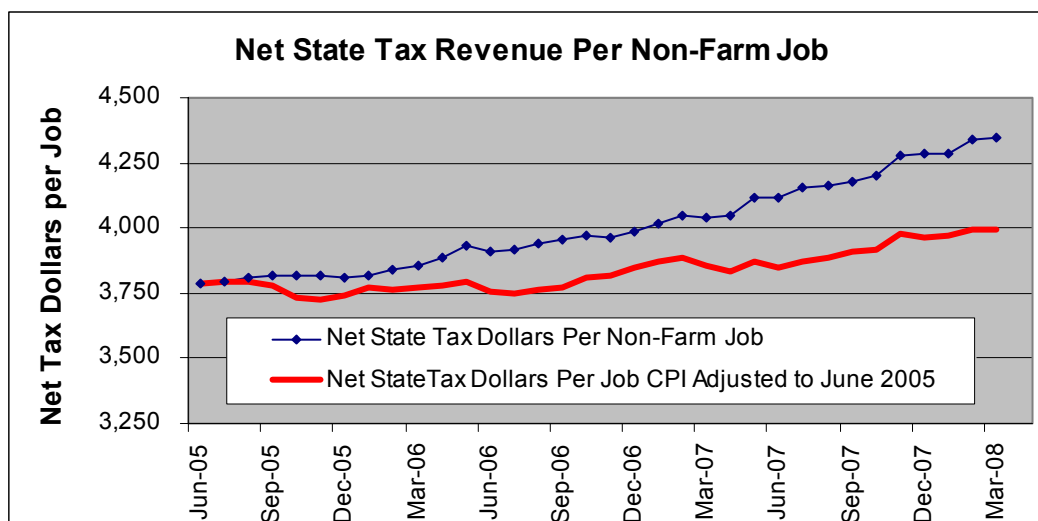
The Iowa Cigarette Tax was enacted in 1921 at a rate of \$.02 per pack of 20 cigarettes (HF 678, Cigarette Tax Act of 1921). The Cigarette Tax rate was increased periodically and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack and then increased in 1991 to \$0.36 per pack. The tax remained at \$0.36 per pack until the 2007 Legislative Session.

The Tobacco Tax was enacted in 1967 at a rate of 10.0% of the wholesale price (HF 702, Division 1, Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette Tax returns are to be filed by the holder of a state or manufacturer's permit by the 10th day of each month for the preceding calendar month. Tobacco (other than cigarettes) Tax returns must be filed by the 20th day of each month for the preceding calendar month. Revenue received from the Cigarette and Tobacco Tax is deposited in the State General Fund. Beginning in FY 2008, the first \$127.6 million generated from the Cigarette and Tobacco Tax is appropriated annually to the Health Care Trust Fund (Chapter 453A), Code of Iowa).

Tax Revenue and Employment

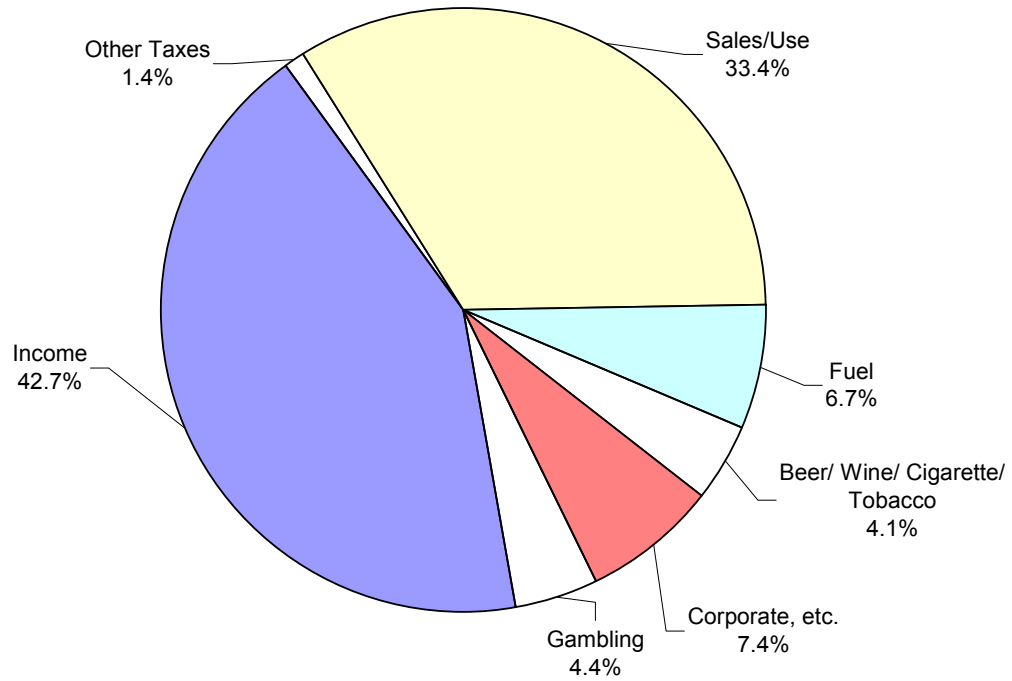
The average reading for Iowa non-farm employment over the 12 months ending March 2008 is 1,519,800, and net State tax receipts over the same 12 months totaled \$6.607 billion, or \$4,350 per non-farm job. This is \$560 (14.8%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 9.8%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.8% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending April 2008

Net Revenue = \$6.662 Billion

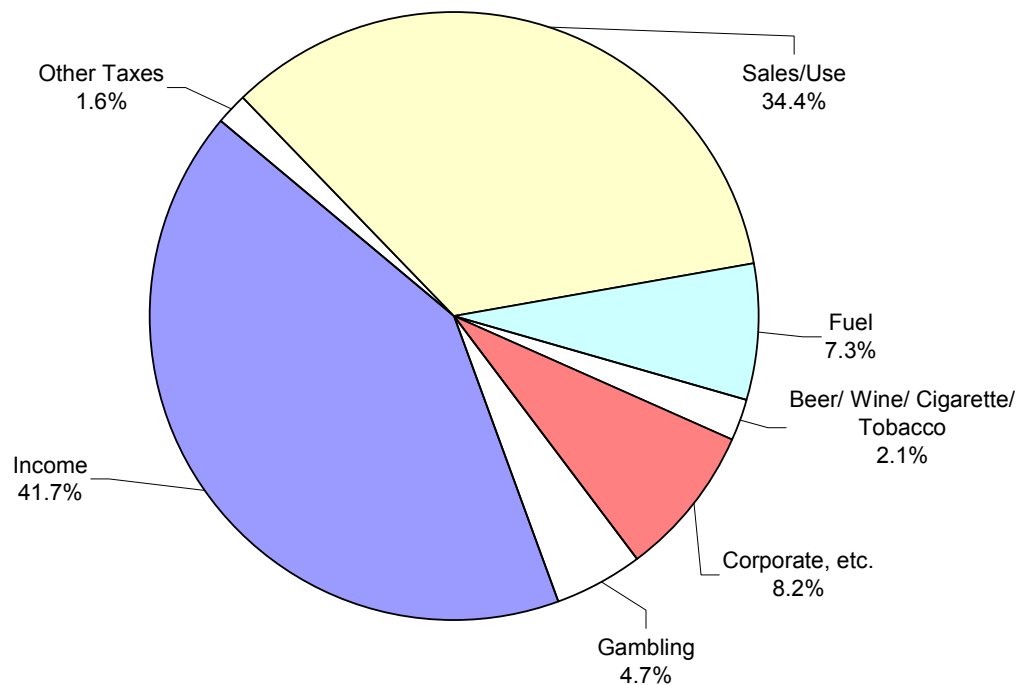
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending April 2007

Net Revenue = \$6.101 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of April 2007	Month of April 2008	April \$ Change	April % Change
Banking	\$ 35.6	\$ 33.3	\$ - 2.3	-6.5%	\$ 3.0	\$ 4.6	\$ 1.6	53.3%
Beer & Wine	20.2	20.7	0.5	2.5%	1.5	1.5	0.0	0.0%
Cigarette & Tobacco	107.5	251.2	143.7	133.7%	10.9	22.3	11.4	104.6%
Corporate Income	339.8	353.4	13.6	4.0%	46.2	46.1	- 0.1	-0.2%
Fuel	444.3	448.4	4.1	0.9%	34.9	34.3	- 0.6	-1.7%
Gambling	287.6	293.1	5.5	1.9%	22.8	25.0	2.2	9.6%
Individual Income	2,543.2	2,842.8	299.6	11.8%	183.1	215.9	32.8	17.9%
Inheritance	74.7	74.1	- 0.6	-0.8%	5.1	4.9	- 0.2	-3.9%
Insurance	123.8	103.0	- 20.8	-16.8%	0.1	0.0	- 0.1	-100.0%
Other Taxes	4.8	- 2.1	- 6.9	-143.8%	1.0	- 0.1	- 1.1	-110.0%
Real Estate Transfer	18.4	18.2	- 0.2	-1.1%	1.7	1.6	- 0.1	-5.9%
Sales/Use	2,101.5	2,226.1	124.6	5.9%	91.8	101.7	9.9	10.8%
Total Net Taxes	\$ 6,101.4	\$ 6,662.4	\$ 561.0	9.2%	\$ 402.1	\$ 457.8	\$ 55.7	13.9%
Gross Tax & Refunds								
Gross Tax	\$ 6,735.0	\$ 7,378.6	\$ 643.6	9.6%	\$ 517.9	\$ 584.7	\$ 66.8	12.9%
Tax Refunds	\$ - 633.6	\$ - 716.2	\$ - 82.6	13.0%	\$ - 115.7	\$ - 126.9	\$ - 11.2	9.7%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,148.4	\$ 5,690.1	\$ 541.7	10.5%	\$ 320.3	\$ 374.5	\$ 54.2	16.9%
Road Use Tax Fund	\$ 686.8	\$ 708.6	\$ 21.8	3.2%	\$ 52.2	\$ 53.1	\$ 0.9	1.7%
Non-GF Gambling	\$ 228.8	\$ 231.8	\$ 3.0	1.3%	\$ 22.8	\$ 24.7	\$ 1.9	8.3%
Other State Funds	\$ 37.4	\$ 31.9	\$ - 5.5	-14.7%	\$ 6.9	\$ 5.5	\$ - 1.4	-20.3%
Local Option Taxes *	\$ 648.5	\$ 705.2	\$ 56.7	8.7%	\$ 62.8	\$ 67.9	\$ 5.1	8.1%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

Beer & Wine Tax: Tax on beer is deposited to the State General Fund. The tax on wine is deposited to the Liquor Control Fund and a Department of Economic Development Fund. Prior to FY 2008, a portion was deposited to a Fund controlled by the Department of Agriculture and Land Stewardship.

Cigarette & Tobacco Tax: Cigarette Tax and the Tobacco Products Tax revenue is deposited to the State General Fund.

Corporate Income Tax: All Corporate Tax is deposited to the State General Fund.

Motor Fuel Tax: All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All Inheritance Tax is deposited to the State General Fund.

Insurance Premium Tax: All Insurance Premium Tax is deposited to the State General Fund.

Other Taxes: Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real Estate Transfer Tax: Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% of its share to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/Use Tax: General Sales/Use Tax is deposited to the State General Fund, while most Motor Vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of Use Tax on motor vehicles is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.